Canadian Northern Economic Development Agency

Quarterly Financial Report

For the quarter ended December 31, 2012

Introduction

This quarterly report has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board. This quarterly report should be read in conjunction with the Main Estimates, Supplementary Estimates "A" and "B", as well as, Canada's Economic Action Plan 2012 (Budget 2012).

The Canadian Northern Economic Development Agency (CanNor) works to create a diversified, sustainable and dynamic economy across Canada's three territories, which contributes to the nation's prosperity. CanNor fosters growth and development in the North by delivering economic and community development programs and by aligning the efforts of partners and stakeholders to respond to economic opportunities and challenges in the North.

Further details on CanNor's authorities, mandate and program activities may be found in the Report on Plans and Priorities at: http://www.tbs-sct.gc.ca/rpp/2012-2013/inst/ned/ned00-eng.asp, and in the Main Estimates (Part II) http://www.tbs-sct.gc.ca/est-pre/20122013/me-bpd/me-bpd-eng.pdf .

Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes the Canadian Northern Economic Development Agency's spending authorities granted by Parliament and those used by the department consistent with the Main Estimates and the Supplementary Estimates "A" and "B" for the 2012-2013 fiscal year. The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authority for specific purposes.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, 2012 after tabling of the Main Estimates on February 28, 2012. As a result the measures announced in the Budget 2012 could not be reflected in the 2012-2013 Main Estimates.

In fiscal year 2012-2013, planned reductions that were not included in Main Estimates were included in Supplementary Estimates "B" to reflect the decrease in spending of funds already identified as savings measures in Budget 2012. In future years, the changes to departmental authorities will be implemented through the Annual Reference Level Update, as approved by Treasury Board, and reflected in the subsequent Main Estimates tabled in Parliament.

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This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

As part of the departmental performance reporting process, the Canadian Northern Economic Development Agency prepares its annual departmental financial statements on a full accrual basis in accordance with Treasury Board accounting policies, which are based on Canadian generally accepted accounting principles for the public sector. However, the spending authorities voted by Parliament remain on an expenditure basis.

Highlights of fiscal quarter and fiscal year to date (YTD) results

Statement of Authorities

As at December 31, 2012, total authorities available for fiscal year 2012-2013 amounted to $54.8M which is an overall increase of $7.1M from the last fiscal year available amount of $47.7M.

The $7.1M increase relates to increased contributions funding of $4.9M for the Northern Adult Basic Education Program (NABEP) and new funding of $3.2M for the Community Infrastructure Improvement Fund (CIIF). The total increase indicated above of $8.1M is offset by $1M reduction related to in year operating adjustments (i.e. carry-forward, paylist adjustments).

The operating authorities used during the 2012-2013 third quarter decreased by $321K over the same period of 2011-2012, and the year-to-date figures as at December 31 have decreased by $515K. Transfer payments for 2012-2013 have increased on a year-to-date basis by approximately $5.4M over the previous year.

Statement of Departmental Budgetary Expenditures by Standard Object

Compared to the previous year, total budgetary expenditures recorded in the quarter ending December 31, 2012 increased by approximately $3.57M, from $7.42M to $10.99M.

Transfer payments expenditures increased by $3.79M in the quarter, mainly due to payments for the Northern Adult Basic Education Program ($1.9M) which only started in the fourth quarter of 2011-2012, though earlier payments for existing programs also occurred.

With respect to the other non-transfer payment reporting objects, there is a decrease in salaries of $296K compared to the same quarter for the previous year, due to a stabilization of salary costs for the Agency. There were only minor differences for the other reporting objects.

The changes in spending in transfer payments since the start of the fiscal year are broken down as follows between program activities:

Program Activity	Used at end of 3rd quarter 2011-2012	Used at end of 3rd quarter 2012-2013	Increase/(Decrease)
Business Development	$0.1M	$7.8M	$7.7M
Community Development	$6.7M	$5.7M	($1.0M)

The increase in spending in the Business Development activity from $0.1M in 2011-2012 to $7.8M in 2012-2013 is explained by the following items:

1. As explained in the 2011-2012 Departmental Performance Report, the Strategic Investments in Northern Economic Development (SINED) program was transferred from Community Development to Business Development. In 2011-2012, SINED spending of $4.2M to the end of the third quarter was included in Community Development. The transfer of spending occurred in the fourth quarter of 2011-2012. In 2012-2013, spending on SINED is included in Business Development.

2. Most of the remaining increase of $3.5M is due to earlier payments of contributions ($2M for SINED) and because of a reallocation of operating costs between program activities as also explained in the 2011-2012 Departmental Performance Report.

The decrease in spending in the Community Development activity from $6.7M in 2011-2012 to $5.7M in 2012-2013 is explained by the following items:

1. As mentioned previously, SINED spending of $4.2M was included in Community Development in the third quarter 2011-2012 expenses.

2. The Northern Basic Adult Education Program which started in the fourth quarter of 2011-2012 incurred $2.6M of spending to the third quarter of 2012-2013

3. Earlier payments for contributions were also noted in 2012-2013 and caused the balance of the increase.

Risks and Uncertainties

This Departmental Quarterly Financial Report (QFR) reflects the results of the current fiscal period in relation to the Main Estimates, Supplementary Estimates "A" and Supplementary Estimates "B".

Budget 2010 announced that the operating budgets of departments and agencies would be frozen at their 2010-2011 levels for fiscal years 2011-2012 and 2012-2013. The Agency has taken several measures via savings and efficiency gains to address reductions in order to effectively manage financial and human resources within the context of the operating budget constraint.

CanNor delivers on its mandate in a complex environment. Economic development in the North needs to deal with the exigencies of the climate, remote communities, sparse population, dependence on natural resource extraction and associated challenges, such as underdeveloped infrastructure. The North also represents an area of immense opportunity with significant resource development projects underway and a strong contribution to Canada's gross domestic product.

CanNor has identified the following six key risk areas in the 2012-2013 Reports on Plans and Priorities:

- Operational environment
- Human and knowledge capital
- Alignment with priorities and needs
- Relationship with clients, partners and stakeholders
- Public communications
- Legal, statutory and land claims

Further details on these risks and how CanNor plans to manage and mitigate the risks can be found in the Report on Plans and Priorities for the Agency. CanNor monitors expenditures and carries out business planning to ensure that financial risks are mitigated and that program delivery is optimized. Efforts are underway to step up the pace of project review and disbursements of contribution programs in order to reduce the risk of year-end lapses.

Budget 2012 Implementation

This section provides an overview of the cost saving measures announced in Budget 2012 that will be implemented to ensure the government operates as efficiently as possible. The CanNor cost savings measures are focused on modernizing operations and improving efficiency and effectiveness as an organization to help the Agency better serve its clients.

CanNor will achieve Budget 2012 savings of $2.4M by fiscal year 2014-2015 by reducing office space, implementing more efficient business processes, reducing program funding to respond to a degree of overlap and duplication, and more closely aligning resources to its core mandate. These changes will ensure that CanNor has sustainable programs that support economic growth and meet the needs of the North for the long term.

In the first year of implementation (2012-2013), CanNor will achieve savings of approximately $0.2M, by releasing office space to match its accommodation needs. CanNor's savings will increase to $2.4M in 2013-2014 and will result in ongoing savings of $2.4M in future years.

Significant changes in relation to operations, personnel and programs

Reductions in CanNor's operating budget for 2012-2013, totalling $296K, for amounts transferred to Shared Services Canada ($280K) and PWGSC ($16K) for services provided to CanNor related to informatics services and compensation services respectively, are included in the statement of authorities.

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Approved by:

Patrick Borbey
President
Ottawa, Canada
February 15, 2013

Yves Robineau CPA, CA
Chief Financial Officer

STATEMENT OF AUTHORITIES
(unaudited)

(In thousands of dollars)	Fiscal year 2012-2013			Fiscal year 2011-2012		
	Total available for use for the year ending March 31, 2013*	Used during the quarter ended December 31, 2012	Year- to- date used at quarter-end	Total available for use for the year ending March 31, 2012*	Used during the quarter ended December 31, 2011	Year-to- date used at quarter-end
Vote 30 - Net Operating	13,784	2,687	7,277	14,779	3,008	7,792
Vote 35 - Transfer payments	39,862	8,010	10,710	31,775	4,220	5,348
Budgetary statutory authorities	1,172	293	879	1,195	197	790
Total Budgetary authorities	**54,818**	**10,990**	**18,866**	**47,749**	**7,425**	**13,930**
Non-budgetary authorities	0	0	0	0	0	0
Total authorities	**54,818**	**10,990**	**18,866**	**47,749**	**7,425**	**13,390**

* *Includes only Authorities available for use and granted by Parliament at quarter-end.*

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Departmental budgetary expenditures by Standard Object (unaudited)

(In thousands of dollars)	Fiscal year 2012-2013			Fiscal year 2011-2012		
	Planned expenditures for the year ending March 31, 2013	Used during the quarter ended December 31, 2012	Year- to- date used at quarter-end	Planned expenditures for the year ending March 31, 2012	Used during the quarter ended December 31, 2011	Year- to- date used at quarter-end
Expenditures:						
Personnel	8,276	2,115	6,476	8,401	2,411	7,175
Transportation and communications	2,116	179	727	1,624	153	652
Information	300	22	25	32	7	9
Professional and special services	2,114	139	260	2,880	210	266
Rentals	1,150	488	614	895	384	396
Repair and maintenance	50	1	1	2	0	2
Utilities, materials and supplies	200	35	51	196	9	26
Acquisition of land, buildings and works	450	0	0	989	0	0
Acquisition of machinery and equipment	200	0	1	338	28	52
Transfer payments	39,862	8,010	10,710	31,755	4,220	5,348
Public Debt charges	0	0	0	0	0	0
Other subsidies and payments	100	1	1	637	3	4
Total budgetary expenditures	**54,818**	**10,990**	**18,866**	**47,749**	**7,425**	**13,930**